

Bulletin

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Rates and Cost Recovery

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DATA CENTER SERVICES GUIDELINES

The Office of Technology Services (OTech) often provides hardware, software, or consulting services that are unique to a customer or a small group of customers. In these cases, as the customer base decreases and the costs increase or remain the same, the OTech is no longer able to provide the service at a cost effective rate that recovers full costs. This bulletin sets guidelines for determining how and when it is appropriate to recover full costs from a small group of customers.

Consistent with the OTech Guiding Principles for Cost Allocation and Rate Setting and the stated goal of financial viability, these guidelines provide processes to bring certain services into full cost recovery.

OTech Guiding Principles for Rate Setting

1. The Department strives to have reasonable rates for comparable services.
2. The Department's rates must be justifiable and supportable.
3. The Department's internal systems should provide accurate and timely cost and activity data for rate setting and billing purposes.
4. Services will be periodically reviewed to determine the most appropriate rate-setting methodology according to the type of service (that is, measured usage, subscription, or direct bill).
5. The revenues generated from the rates should fully recover the costs of the service, plus allowable reserves for working capital and equipment replacement. In order to facilitate the adoption of new services and/or the transition of customers to more efficient technologies, this principle may be suspended for a specific service for an actively managed period of transition. This exception will only be made for a documented policy objective and for a defined time period, after which the service is required to be compliant with the principle.
6. The effort required for rate setting should be commensurate with the benefits derived.
7. The rate setting process should provide mechanisms for ongoing rate review from a financial, technical, and business perspective.

CATEGORY OF SERVICES

Category 1 – General Purpose Service

The service is considered of value to the general customer base. The cost of a general-use service is recovered through published service rates.

Category 2 – Services Utilized by a Few Customer Departments

If the service has future value to more than the requesting few customers, the service costs will be recovered through a dedicated customer rate (direct pass-through of costs plus applicable administrative overhead) until the customer pool is large enough to substantiate a service rate, moving the service into Category 1.

In some situations, this may result in establishing a temporary subsidized service rate, which may not fully recover service provision costs directly from service-using customers to promote the adoption/increased utilization of the service. The guidelines for temporary service rate subsidization are defined in the OTech's approved Rate Methodology Report. Temporary subsidization will be documented, limited to a defined transition period, actively managed, and realigned with the cost of service at the end of the transition period. The Technology Services Board (TSB) has oversight and approval of temporary subsidized service rates.

Category 3 – Services Utilized by a Few Customer Departments with Little or No Value to the General Customer Base (Dedicated Services)

A service utilized by a few customers, but not of current or future value to the general customer base is classified as a dedicated service. The cost of a dedicated service will be fully recovered from customers using that service through a dedicated rate until the customer converts to a more commonly used IT solution, or no longer chooses to receive the service from the OTech.

Through the progression of technology, a Category 1 or Category 2 service may be reclassified as Category 3 if there is a significant reduction in the number of customers using the service. If a service is reclassified as Category 3, the Office of the Chief Information Officer (OCIO), Administration Division will provide the impacted customer a maximum of a 12-month advance notice to allow the customer to properly align budgetary needs or terminate the service.

Questions regarding these guidelines should be directed to the OCIO, Administration Division, OTech Rates and Cost Recovery Unit at (916) 739-7904.

Authority/Reference

[OTech Service Catalog](#)

[OTech Strategic Plan](#)